

ON-FILE NSC RELEASE INSTRUCTIONS APPLY

NATIONAL SECURITY COUNCIL MEETING

Tuesday, May 14, 1985

The Cabinet Room

11:00 a.m.-12:00 noon

1984 STOCKPILE/INDUSTRIAL
MOBILIZATION PLANNING STUDY

Agenda

- | | |
|-------------------------|------------------------------------|
| I. Introduction | Robert C. McFarlane
(5 minutes) |
| II. Briefing 1984 Study | Richard Levine
(25 minutes) |
| III. General Discussion | All Participants
(25 minutes) |
| IV. Summary Remarks | Robert C. McFarlane
(5 minutes) |

SECRET

14 May 1985

TALKING POINTS ON CIA ROLE

- CIA led a study team (including DIA and State/INR) which analyzed the political and economic reliability of 26 key countries supplying strategic minerals and metals to the US.
- Our analysis assumed the specific wartime scenario presented by NSC and was based on (a) the political will of these countries to supply us, and (b) analysis of internal political conditions such as guerrilla activity and terrorism that could affect their ability to supply the US.
- On this basis, 13 of the 26 countries were considered to be reliable, including Canada, Mexico, and Australia. In those countries it was concluded that economic and financial factors would dictate continuation of exports.
- It is important to understand that these results are largely dictated by the single war scenario used. A war fought in Africa or one which affected the safety of Atlantic or Pacific shipping lanes would pose much higher risks for the availability of many of these materials.

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FOUNDED 1897
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202/861-2800
TWX 710-822-0126

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May 10, 1985

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The Honorable William J. Casey
Director
Central Intelligence Agency
Washington, D.C. 20505

Dear Mr. Director:

It has come to our attention that the National Security Council (NSC) is conducting a study of National Defense Stockpile goals and that the agenda for its meeting on May 14 includes a discussion of this item. The American Mining Congress (AMC) wishes to convey its views to the NSC on this important matter.

Founded in 1897, the American Mining Congress is an industry association whose members include the producers of most of the nation's metals, coal, and industrial and agricultural minerals essential to the country's economic well-being and national security.

The association has been concerned with federal stockpile policy since its inception. AMC's most recent statement on governmental defense stockpiling appears in its current Declaration of Policy and reads as follows:

The National Defense Stockpile is an important element in minerals availability and national defense readiness, particularly in relation to certain critical metals for which the United States has a high degree of import dependence.

Nevertheless, in recent decades stockpile objectives for various metals have been subject to frequent and drastic swings that clearly were not determined by strategic considerations.

DCI
EXEC
REG

A national minerals policy should reflect experience and provide for greater consistency of policy adherence to the national security aspects of its mission, for which the stockpile was authorized. For this reason, the American Mining Congress has suggested that responsibility for the stockpile be placed in an independent government corporation.

We also have supported legislation to establish stockpile objectives in relation to average imports over the previous five years of the mineral concerned. This would provide an objective standard less subject to manipulation for political or budgetary reasons, and it automatically would align stockpile goals with changes in applicable technology.

The AMC opposes establishment of an economic stockpile, as well as use of the National Defense Stockpile for budgetary purposes.

In establishing stockpile goals for mineral commodities, a major consideration should be the weak economic state of the domestic mining industry. For example, the cover story of the December 17, 1984, issue of Business Week correctly stated that the recovery of 1983-84 largely by-passed producers of copper, iron ore, nickel, lead, zinc and molybdenum.

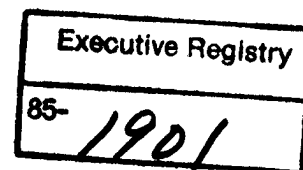
This lack of recovery undoubtedly results from several factors, but it is apparent that the United States is increasingly dependent on foreign sources for metals and minerals essential to the nation's security and industrial base.

Some of these foreign sources may be politically or economically unstable, and this should be considered in setting stockpile goals.

The American Mining Congress and its member companies would be pleased to serve you and your study group on stockpile or any other matters that would be helpful to you.

Sincerely,

J. Allen Overton, Jr.
President



May 6, 1985

Honorable William J. Casey
Director
Central Intelligence Agency
Washington, D.C. 20505

Dear Bill:

It was a fine gesture on your part to introduce Frank Barnett at breakfast earlier this week. And didn't he justify your faith?! He received the only standing ovation we've ever had at those ABA breakfasts and we've had some headliners. You, Judge Webster, and Justice Powell added prestige to Frank's resounding speech.

I now write to you as a private citizen to voice concerns that I have developed through my service as Chairman of the National Strategic Materials and Minerals Program Advisory Committee--a Committee I am convinced would never have been formed without your early (1980) concerns about our strategic minerals dependency. At Judge Clark's request, I took over the task of forming the Committee and selecting a broad and representative base of some 24 distinguished and knowledgeable Americans. This took place in March 1984 after Dan McMichael, Colonel Dick Snyder (USAF Ret.) and I attended a stockpile goals study briefing at the White House at Judge Clark's request, given by one Richard Levine. It was our unanimous conclusion--reported back to Judge Clark--that the goals study we heard was wrong in concept and promised to be disastrous politically.

After the Committee had been in operation for some time, Judge Clark sent for me and asked that my Committee review the Levine stockpile study in greater depth. Parts of the study were classified so the Judge called Bud McFarlane to clear access. I then appointed a task force chaired by Simon Strauss (Mr. Stockpile), Dr. Tim Stanley of the International Economic Studies Institute, and Colonel Snyder to evaluate the study. Their highly critical report with my forwarding memorandum to Judge Clark is enclosed herewith as Enclosure A. The Judge also approved our related task force and Committee recommendation, enclosed herewith as Enclosure B.

By now you're asking--why come to Bill Casey (and Ed Meese, to whom a copy of this letter is going)? Because, in spite of criticism of the Levine study by practically everyone (Secretary of Defense, Secretary of the Interior, Secretary of Commerce), the study is coming before the NSC for approval on May 14. You and Ed are the two most knowledgeable members of the NSC on minerals and materials matters. My Committee hopes you will disapprove the Levine study and move to constitute a new, properly qualified team to do the authoritative stockpile goals review, which is seriously overdue.

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If the Levine study were to be approved, all hell will break out in the Congress. As I advised Judge Clark, this is the kind of confrontation this Administration does not need. The enclosed letter (Enclosure C) from Congressman Bennett to Bud McFarlane gives notice of further confrontation to come.

Sincerely,

A handwritten signature in cursive script, appearing to read "Bill".

William C. Mott
R. Adm. (Ret.)
Chairman, National Strategic
Materials and Minerals
Program Advisory Committee

Enclosures

cc: Honorable Edwin Meese III, Attorney General



United States Department of the Interior

National Strategic Materials and Minerals Program Advisory Committee Washington, D.C. 20240

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Dear Judge Clark:

Like all your loyal and devoted staff in Interior the members of our Committee, and most especially its Chairman, are in a state of shock over your prospective return to the ranch. I guess I can understand it better than most because my wife and I moved to Charlottesville for much the same reasons, I suspect, as motivated the Clarks.

Bob Broadbent, who has been most supportive of our efforts and great to work with, assures me that you want us to continue our efforts, and we wish to do so until notified to the contrary by you or your successor. By copy hereof, I am so informing the Committee members.

Enclosed for record purposes are two reports on the proposed stockpile goals. The first was prepared by an informal committee chaired by Simon Strauss who heads the cognizant subcommittee of our main Committee, on stockpile matters; the second is a separate report Simon made to me. Simon Strauss very probably knows more about stockpile management than any man alive. His views and those of his associates should be listened to. These communications have already been informally submitted to your very able right-hand man, Dick Morris.

Sincerely,

/s/ William C. Mott
R. Adm. (Ret.)
Chairman, National Strategic
Materials and Minerals
Program Advisory Committee

Enclosures

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December 14, 1984

Memorandum to: Admiral William C. Mott, Chairman
National Strategic Materials and
Minerals Program Advisory Committee

From: S. D. Strauss
T. W. Stanley
R. C. Snyder

Subject: NSC Stockpile Goals Study

Responding to your and Secretary Clark's request, the above-named persons spent December 13th examining the current working files of the subject study, the underlying assumptions which it uses, and the validity of wartime materials consumption rates which have thus far been projected as its results. We went into appreciably greater detail, including security-classified material, than had been practicable during the October 25th meeting with Mr. Richard Levine in which you, Mr. Strauss, and Mr. Snyder participated. This summary report of our conclusions and recommendations is deliberately limited to non-classified information, but can be supported in amplified, classified detail if desired.

Our principal conclusions and recommendations are:

- o Appreciable portions of the early phases of the NSC Goals Study and methodology — including papers already approved by the President — are valuable and should be preserved as a framework for the additional refinement of Stockpile goals which is badly needed.
- o The econometric modeling and certain input assumptions being used in more recent months are leading to questionable results which — if officially adopted — would constitute disservice to national security, to allied nations, and to the Administration. Goals which may derive from the working papers which we reviewed would not be credible, especially with the U.S. Congress. This modeling exercise should be discontinued.
- o Timing is now opportune to improve the management and organization of the process for determining both Stockpile goals and the Annual Materials Plan (AMP) for the longer-term future. This can readily be accomplished without amendment to existing statutes.
- o It is also timely for the Administration to announce Stockpile Goal revisions, which should be clearly qualified as "interim", however. The November 13, 1984 paper submitted to the steering group of the NSC Goals Study (Attachment 3) offers a useful rough-cut approach to such interim, minimum goals, arrived at by extrapolating from U.S. steel and aluminum smelting capacities. They can be safely adopted in the interest of avoiding appreciable further delay and expenditure of effort.

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-2-

- o If accepted, the above conclusions and recommendations should be carefully integrated with the process of establishing improved management of the National Defense Stockpile itself, in line with the November 15th, 1984 recommendation by Secretary Clark's Strategic Materials and Minerals Program Advisory Committee (administration by a Government corporation).
- o The above recommendations can result in improved economy and effectiveness in the government's responsibilities for the Stockpile, an emergency preparedness measure which continues to be a vital resource in the U.S. posture of deterrence. Without that resource, U. S. military forces cannot successfully be committed to countering major non-nuclear aggression, if so required. At the same time, when final budget and economic decisions require the President's decision, he will be assured of reviewing a valid statement of requirements for strategic and critical resources which has not been prejudiced by premature, lower-level injection of budgetary or economic policy considerations.

Attachment 1 presents examples of the questionable results referred to above. Attachment 2 amplifies certain of the preceding recommendations. We will be happy to assist the Administration in developing more specific plans for their implementation, as — we believe — would appropriate other members of Secretary Clark's Advisory Committee.

This paper is signed only by Mr. Snyder in view of physical separation of the three reviewers today, but it is based upon their substantive agreement and delegation of final preparation to him.


Richard C. Snyder

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EXAMPLES OF QUESTIONABLE RECENT RESULTS

- o Projected Average Annual Wartime Material Requirements (reference Summary Table III in the NSC Goals Study, attachment 4 herewith) which result from recent econometric modeling are so low as to be incredible in the eyes of any experienced, qualified industrial person. The wartime economic scenarios apparently draw very little upon applicable World War II and Korean War experience and project levels of economic activity which differ so appreciably from that experience as to be unrealistic on their face. For example:
 - Aluminum, projected at an annual rate only 49% of Average U.S. Consumption during the recession years 1981-83;
 - Chromium, at annual rate equal to 86% of 1981-83 consumption;
 - Copper, at annual rate equal to 64% of 1981-83 consumption.
- o Underlying such projections are assumptions as to "Austerity: Nonessential Uses" which are both implausible and in some cases inconsistent with other major factors or assumptions used in the Study. Also, they disregard the need to return to a normal post-war national economy as soon as may be feasible. For example:
 - Civilian automobile and parts production is assumed to be totally eliminated;
 - Residential construction is assumed to be 90% curtailed;
 - Free-market allocation and pricing of fuels is assumed, while the automotive and construction cut-backs can only be accomplished by government edict;
 - Seriously disruptive "black markets" would be inevitable -- if not invited -- in a wartime situation if such precepts actually were applied.
- o There is no way of rectifying econometric modeling results which are based upon 1972 industrial consumption data. International materials markets, materials technologies, and materials applications have changed too radically over the past 12 years.
- o The preceding statement applies even more to a number of advanced defense-peculiar materials (e.g., germanium, gallium, etc.) which now are highly essential to new weapons and communications systems, but were barely in production in 1972. Even with respect to metals more traditionally used for defense requirements (chromium, cobalt, titanium, etc.), the accuracy of Table III's projection of Average DoD Wartime Consumption is highly suspect, though not demonstrably so in view of limitations upon the review group's time and availability of cross-reference data.

Att. 1

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MORE SPECIFIC RECOMMENDATIONS

The following can be implemented without amendment of governing statutes (National Security Act, Stockpiling Act, Defense Production Act, etc.):

- o Leadership functions and responsibilities for civilian/industrial mobilization preparedness should be placed in a separate organization, reporting to and closely integrated with a high level within the National Security Council, undistracted and undiluted by considerations other than its primary mission. There is ample precedent for the effectiveness of such organization: the Office of Defense Mobilization (ODM, 1953); the Office of Emergency Preparedness (OEP, 1968). (At those times, their Directors were statutory members of the National Security Council.)
- o Qualified private-sector expertise should be incorporated in the process both of establishing goals and of formulating the Annual Materials Plan (AMP). (That plan identifies Stockpile transactions needs, opportunities, and mechanisms, such as barter vs. purchase and tolling for materials upgrading.) This must be on a commodity-by-commodity basis (or in some cases on a group-by-group basis). Effective use of such expertise both requires and facilitates strengthening the interagency working groups at the commodities level — the only valid means for evaluating widely varying circumstances of technology, markets, and applications when estimating wartime requirements and consumption. The National Materials Advisory Board (NMAB) should be able to assist in identifying and recruiting such best-qualified private-sector individuals, as well as in validating methodologies utilized by the interagency working groups.
- o The Department of Defense must specifically identify its projected wartime requirements — particularly for the more exotic or advanced materials for which there is little non-defense consumption. To our knowledge, this has never been adequately accomplished. To do so may require improved integration of functions and responsibilities both at OSD level and in the military services.

Att. 2

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December 10, 1984

Rear Adm. William C. Mott (ret.)
Chairman
National Strategic Materials and Minerals Program Advisory Committee
Department of the Interior
Washington, D.C. 20240

Dear Bill:

Dick Snyder, Timothy Stanley and I met yesterday with Dr. John Morgan at the U.S. Bureau of Mines to review classified data dealing with the current review of stockpile goals being made under the chairmanship of the National Security Council. This was in accordance with arrangements you had made through Secretary Clark.

We spent a full six hours, in which time we were able to obtain a better understanding of the basic assumptions and the rationale of the current study. Dr. Morgan was extremely helpful in bringing the issues into perspective and giving us an objective view of the process of arriving at stockpile policy now being employed by the government agencies involved in the stockpile study.

Because I leave tomorrow for a long-planned two-week holiday in Bermuda, I have asked Messrs. Snyder and Stanley to collaborate in a report to you of our findings. A first draft of these findings was undertaken by Mr. Snyder while we were in Dr. Morgan's office on which I offered some comments. Mr. Stanley did not have an opportunity to review that draft completely before our meeting broke up, but gave the two of us some of his impressions. Knowing my two colleagues, I have no hesitancy in assuring you that I endorse the final product, which may well have reached you by the time you see this letter.

I would like to say that I was startled to find that in appraising the prospective war-time demand for basic materials, one calculation assumes that under conditions of austerity this country could fight a war with a level of aluminum consumption about 40% of its consumption in the years 1981-1983; and this was representative of the estimates for most of the key 19 or 20 commodities studied.

On a different topic, Dr. Morgan showed us a draft of a proposed Presidential response to Congress on stockpile status. This indicated that Interior may already be taking an initiative to draft legislation embodying the government stockpile corporation recommendation our committee has made. If this is so, I feel that our committee needs to be involved at an early stage. I will be available in January if you wish.

Kind regards and best wishes for the holiday season, sincerely,

cc: RC Snyder, Timothy Stanley

Simon D. Strauss

B

Defense Stockpile Goal Setting

RECOMMENDATION

The National Strategic Materials and Minerals Program Advisory Committee recommends that agencies charged with determining materials goals for the National Defense stockpile observe a procedure that includes the following steps to ensure that the goals provide an acceptable level of preparedness:

- (1) consultation with expert representatives from Government and private sector materials and minerals producers, processors, end-users, and recyclers;
- (2) evaluation of needs on a commodity-by-commodity basis, with emphasis on technological and not economic considerations;
- (3) consideration of industrial and essential civilian needs as well as military-defense needs;
- (4) thorough Government-wide and private sector review of current and emerging technology to enable sound judgments to be made about which stockpiled materials are obsolete (and should, therefore, be disposed of) and which materials--including those with little or no present commercial utility--should be added to the stockpile for defense purposes;
- (5) broad review of the criteria used to determine stockpile goals to assure that they include: (a) reasonable assumptions about the level of austerity that Government should impose on its citizens to accommodate defense mobilization; (b) proper regard for historical experience during prior mobilizations; (c) allowance for the importance of maintaining civilian morale during a shift to a mobilization economy; (d) strict adherence to all existing laws applicable to the National Defense Stockpile.

Adopted 2-6-85

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U.S. House of Representatives
COMMITTEE ON ARMED SERVICES
Washington, DC 20515

NINETY-NINTH CONGRESS
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April 29, 1985

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Honorable Robert C. McFarlane
Assistant to the President for
National Security Affairs
The White House
Washington, D. C. 20500

Dear Mr. McFarlane:

In response to a letter of March 14th to the Acting Administrator of GSA about the National Defense Stockpile, a response dated April 5, 1985 (copy attached) from Acting Administrator Schoeni advised, and I quote, "the General Services Administration has been directed by the National Security Council to defer further purchases pending completion of the ongoing stockpile goal study." I understand this directive to GSA is a classified document. Please provide this committee with a copy of the directive together with such information as may be made available to the committee regarding the date upon which the National Security Council approved that order.

Furthermore, I would very much appreciate being advised as to the projected completion date of the National Security Council's stockpile goal study. I am personally concerned that the delay in completing this study, which has now been underway for almost two years, is unnecessarily impeding the orderly management of the National Defense Stockpile.

Sincerely,



Charles E. Bennett
Chairman, Subcommittee on Seapower and
Strategic and Critical Materials

CEB:dpc

Enclosure

cc: Honorable Caspar W. Weinberger, Secretary of Defense
Honorable George P. Shultz, Secretary of State
Honorable Donald P. Hodel, Secretary of Interior
Honorable Malcolm Baldrige, Secretary of Commerce
Honorable Louis O. Giuffrida, Director, Federal Emergency Management Agency
Honorable David A. Stockman, Director, Office of Management and Budget
Honorable Patricia Q. Schoeni, Acting Administrator, General Services Administration



APR - 5 1985

Honorable Les Aspin
Chairman, Committee on
Armed Services
House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

This is in response to your letter dated March 14, 1985, requesting information on the current and projected status of the National Defense Stockpile Transaction Fund (Transaction Fund) for FY 1985, and projections of total disposals and acquisitions for the remainder of this fiscal year.

The current and projected status of the Transaction Fund is shown in the enclosure to this letter. The projections are based upon assumptions as stated with regard to proposed legislative changes; disposals, and acquisitions for the balance of FY 1985.

With regard to disposals and acquisitions, a revised FY 1985 Annual Materials Plan (AMP) reflecting new disposal estimates has been sent to the Congress. The General Services Administration has been directed by the National Security Council (NSC) to defer further purchases pending completion of the ongoing stockpile goals study. A revised AMP for acquisitions based upon the results of this study will be forwarded to you when prepared.

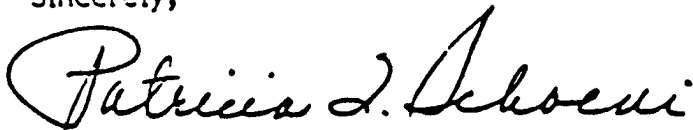
^aWith respect to the limitation on monies in the Transaction Fund established by P.L. 98-525, to prevent any misunderstanding we wish to advise that our disposal of stockpile material as payment for the Presidentially-directed ferroalloys upgrading program will continue even if the limitation should be reached. Since the limitation only applies to receipts deposited in the Transaction Fund, and no funds are generated when material is disposed of as payment for upgrading the ferroalloys, the limitation is inapplicable."

Thank you for the "no objection" to our sales of excess tin, mercury, mica and industrial diamonds in the international (as well as the domestic) market. Since the materials are basically fungible, it would be difficult (and generally unrealistic) to limit these sales to domestic consumption. I note, however, that Mr. Earl Jones, Acting Commissioner of the Federal Property Resources Service, also sent you

three letters dated February 22, 1955, containing similar requests with respect to tungsten, quartz, and metallurgical manganese. Copies of those letters are enclosed. Please tell us your views on our continued international sales of these commodities.

Thank You.

Sincerely,

A handwritten signature in cursive script, reading "Patricia Q. Schoeni". The signature is written in dark ink and is positioned above the typed name.

PATRICIA Q. SCHOENI
Acting Administrator

Enclosures

cc:

Honorable Robert C. McFarlane, Assistant to
the President for National Security Affairs

Honorable David A. Stockman, Director,
Office of Management and Budget

Honorable Louis O. Guiffrida, Director,
Federal Emergency Management Agency

CURRENT AND PROJECTED STATUS OF NATIONAL DEFENSE STOCKPILE TRANSACTION FUND 1/
(Dollars in Millions)

- 1) Status as of February 25, 1985. -- \$203.4
- 2) Projected status as of the end of FY 1985, assuming a) No repeal of section 905 of P.L. 98-525 (Department of Defense Authorization Act of 1985), b) No acquisitions for the balance of FY 1985, and c) Additional disposals of \$5.6 million as reflected in the original Annual Materials Plan for FY 1985. --\$415.1
- 3) Projected status as of the end of FY 1985, assuming a) Repeal of section 905 of P.L. 98-525), b) No acquisitions for the balance of FY 1985, and c) Additional disposals of \$5.6 million as reflected in the original Annual Materials Plan for FY 1985. --\$112.9

Note: Under 2), disposals for cash would be halted when the unobligated balance in the Transaction Fund reached \$250 million.

1/ These projections could be altered by the results of the NSC stockpile goals study.